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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 002408

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SUBJECT: LOW REVENUES, LACK OF GRANTS MEAN DEEP CUTS FOR
JORDAN'S PROPOSED 2010 BUDGET

REF: A. AMMAN 2064

[B](#). AMMAN 1932

[C](#). AMMAN 1646

[D](#). 08 AMMAN 2982

Classified By: Ambassador R. Stephen Beecroft for Reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: Jordan's Ministry of Finance (MOF) has circulated to government ministries a draft budget for 2010 that proposes 11.3% cuts compared to the 2009 budget. The proposed \$7.71 billion budget is based on an expected real growth rate of 4.5% for 2010 and on a \$967.79 million projected deficit. To address its budget constraints, the MOF told EconOffs that the government will freeze new capital expenditure projects in 2010. The proposed 2010 budget comes on the heels of a tough budgetary year in 2009, where the deficit through nine months has reached \$1.24 billion, already far eclipsing the expected \$975 million budget deficit projected for the year. Jordan has also been hit by a significant 79% decline in foreign grants in 2009 and the MOF has similar concerns about foreign grants for 2010. The MOF expects the cabinet to approve the draft 2010 budget in mid-November for submission to Parliament. End summary.

2010 Budget Cut 11.3%

[1](#)2. (C) Dr. Ismail Zaghoul, Director General of the Budget Department of the Ministry of Finance (MOF) told EconOffs on October 27 that a 2010 draft budget proposal has been submitted to government ministries as the MOF prepares to finalize the 2010 budget. The proposed \$7.71 billion 2010 budget foresees 11.3% in across the board cuts when compared to 2009's \$8.69 billion budget. The 2010 budget discussion is taking place as Jordan's 2009 budget deficit continues to grow, reaching \$1.24 billion after the first nine months of 2009 and eclipsing the \$493.36 million deficit for the same period in 2008. The budget deficit for all of 2009 is now expected to reach about \$1.67 billion. The vast increase in the 2009 deficit is attributed to slower than projected growth, an increase in 2009 capital expenditures, and dwindling foreign aid, with virtually nothing from historically large donors Saudi Arabia and the UAE (ref C).

[1](#)3. (C) This year, foreign grants over the first nine months reached \$145.10 million, a 79% drop from the \$696.52 million in grants over the same period in 2008. The proposed 2010 budget envisions a \$967.79 million deficit that would reach

about 7.3% of GDP and is an amount slightly lower than the targeted 2009 deficit of \$975 million (ref D). The budget is also based on a 2010 projected real growth rate of 4.5% (the real growth rate in 2009 is at 3% and in 2008 it reached 7.9%).

Cutting Government Spending

14. (C) Zaghoul asserted that many of the ministries within the government were not satisfied with the budget ceilings proposed to them through the budget circular now making its way through the ministries. The Ministry of Planning and International Cooperation and the Ministry of Public Works and Housing have pushed back, including publicly, claiming that the budget cuts would leave their ministries with insufficient funds to carry out major work plans. Separately, MOF Secretary General Izzeddin Kanakrieh reported that ministries are being encouraged to work together. If a ministry has resources another could use or could delay a project, such as a road repair, and free up funds for health or education, there would be no obstacles to transferring cash or equipment. Kanakrieh and Zaghoul further asserted that the MOF's options are limited, as about 87% of annual budget expenditures are tied up in salaries, pensions and social welfare programs and by law, the deficit is limited to 60% of GDP. Zaghoul stressed that to meet 2010 budget expectations, the Government of Jordan (GOJ) will at least: freeze hiring in all ministries except for the Ministries of Health and Education; curb official travel; freeze purchases of new official vehicles and furniture; and not undertake any

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new capital projects. The GOJ will also cut the budgets for some 57 independent units that report to the GOJ but are not under any of the ministries such as the National Electric Power Company, the Central Bank of Jordan and the Water Authority. According to Zaghoul, these units, which were financed by \$2.9 billion in the 2009 budget, will face cuts as deep as the ministries.

15. (C) Comment: The 2010 budget proposal reflects the GOJ's recognition of the harsh fiscal reality it is facing. Unresolved is whether the GOJ will be able to improve its budget planning for future budgets given its dependence and over-reliance on foreign grants, which might or might not materialize, and its overburdened non-discretionary spending segment of the budget. Zaghoul expects the MOF to forward the final budget proposal to the cabinet for approval in mid-November, after the ministries have reviewed their specific budgets under the budget ceilings imposed by the government. After the cabinet approves the budget, the parliament would then take it up during its regular session set to begin on December 1. End comment.

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Beecroft